EXHIBIT 7

POLICY RESEARCH WORKING PAPER 2472

Uzbekistan and Kazakhstan

A Tale of Two Transition Paths

Asad Alam
Arup Banerji

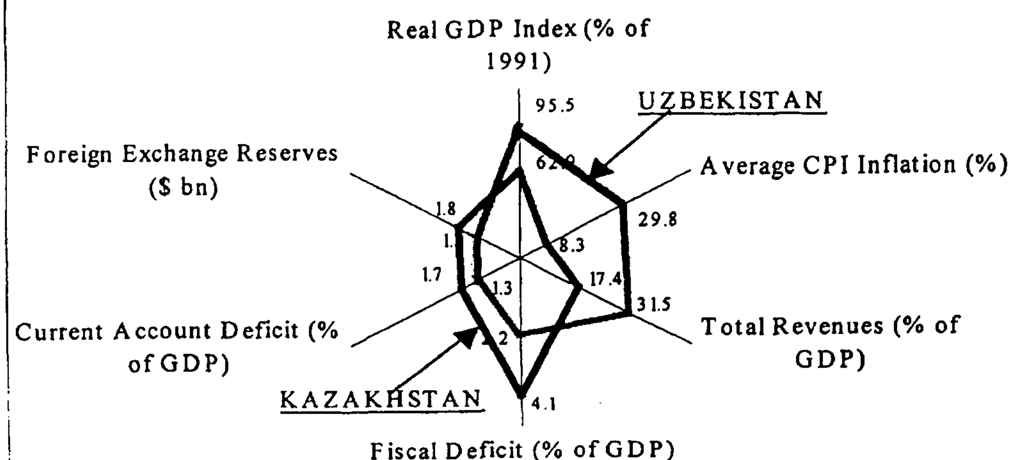
Despite a common parentage for most of the twentieth century, Uzbekistan and Kazakhstan followed seemingly different paths in the transition to a market economy. Uzbekistan adopted a cautious, gradual approach to market reform, while Kazakhstan followed a more aggressive strategy. But has Kazakhstan done better economically?

The World Bank
Europe and Central Asia Region
Poverty Reduction and Economic Management Sector Unit
November 2000

observers.[1] However, in two institutional areas critical for transition success—enterprise restructuring and governance, and competition policy—the institutional framework is equally deficient in both countries.

But how have the two countries fared in terms of their economic outcomes? Certainly, if GDP data for the two countries are to be believed, Uzbekistan has outperformed Kazakhstan in terms of aggregate output growth since independence. Both countries saw their production drop sharply in 1992, due to the severe terms of trade shock and economic dislocation that accompanied the breakup of the Soviet Union. The extent of the decline was much smaller in Uzbekistan and the subsequent rate of recovery

Figure 2: Uzbekistan and Kazakhstan: 1999 Macroeconomic Performance Compared



Source: World Bank

also higher. Consequently, by 1999, Uzbekistan's GDP had recovered to 96 percent of its 1991 level as compared with 63 percent for Kazakhstan.[2] In fact, over the five years 1995-99, Uzbekistan saw a cumulative 10 percent real economic growth at a time when the Kazakhstan economy *shrank* by a cumulative 9 percent. Even on the basis of other macroeconomic performance indicators, it is not clear that Kazakhstan has performed any better. While inflation has been lower and foreign exchange reserves higher, revenue performance has been poorer and the twin deficits on the fiscal and current accounts were

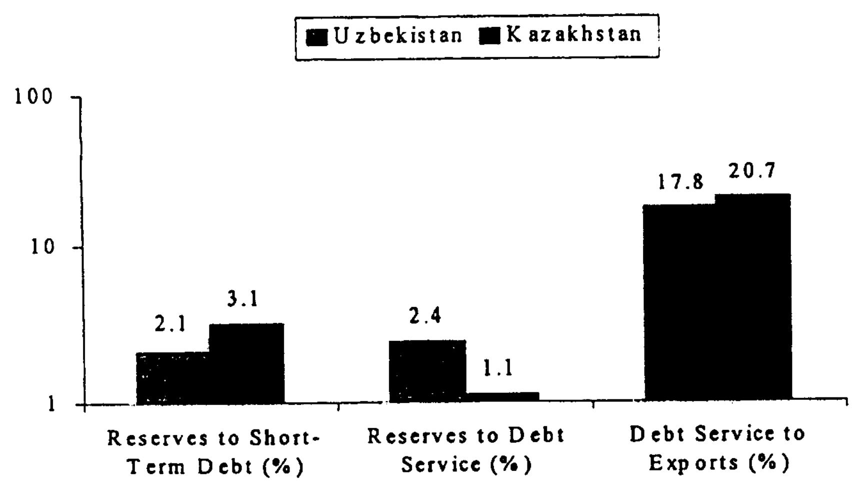
---

1 For instance, the World Bank's Country Policy and Institutional Assessment (CPIA) for 1999 and the Heritage Foundation and Wall Street Journal's 1998 Indices of Economic Freedom.

2 The cumulative decline in GDP in Uzbekistan has been the lowest of the former Soviet Union countries even if alternative estimates based on electricity consumption are used. See Zettlemeyer (1999) for these estimates.

Liquidity indicators for the two countries as at the end of 1999 were reasonable with debt-service to exports of 18% for Uzbekistan and 21 percent for Kazakhstan (see Figure 5) and foreign exchange reserves were adequate to provide coverage against short-term debt flows and debt-service.[7] However, in both countries, the ratio in debt-service to exports has been increasing, driven of part by new short and medium term borrowings. In Kazakhstan, recent forays into the Eurobond market have left a legacy of high-priced borrowings of relatively shorter maturities. A 1999 Eurobond placement was at 825 basis points over US five-year treasuries, while an April 2000 issue was, at a premium of 500 basis points, still expensive debt, especially given the uncertainties of the commodity-driven fiscal cycle in Kazakhstan.

Figure 5: External Liquidity Indicators, 1999



Source: World Bank, IMF

Quality of Foreign Direct Investment (FDI). In 1998, FDI per capita in Kazakhstan was $74 compared with $7 in Uzbekistan, while cumulative FDI inflows over 1989-98 were $5,661 million in Kazakhstan compared with $533 million in Uzbekistan.[8] However, more is not necessarily better. Most of the FDI in Kazakhstan has been into the extractive industries, especially the oil and gas sector, with low multiplier effects in

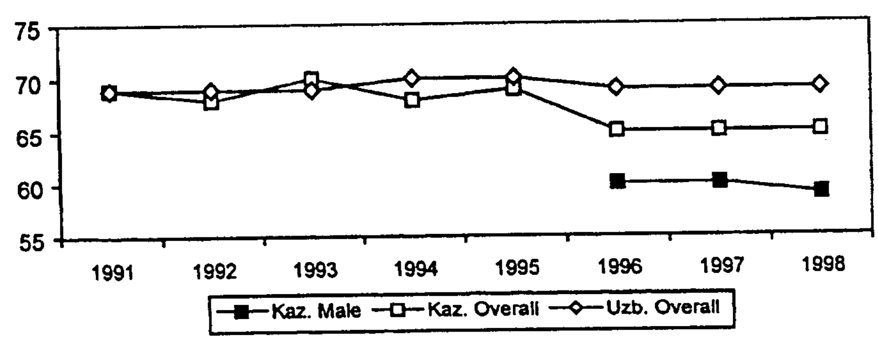
7 Empirical work by Rodrik and Velasco (1999) has shown that reserves to short-term debt ratios of less than unity are strongly associated with future financial crises

8 EBRD (1999), Table 3.1.6, pg. 79.

the economy. Consequently, potential growth impacts were not commensurate with the large flows.

In relative terms, Uzbekistan saw more FDI flows into sectors with larger multipliers—automobiles, electronics, textiles, chemicals, mining, and agro processing. At the same time, this does not mean that despite their short-term economic gains, these foreign investments in Uzbekistan are viable over a more medium- to longer term horizon. Much of the foreign investment in Uzbekistan is directed by the Government into sectors that the Government feels are 'strategic' for the future and are consistent with its vision of an industrialized nation, but not necessarily with the country's comparative advantage. A strategy of picking 'winners' entails high risks and is typically subject to large economic losses over time. Moreover, the distorted policy environment in Uzbekistan, particularly as it relates to the incentive bias against exports, is already undermining the profitability and growth prospects of these new industries.

Figure 6: Trends in life expectancy at birth (years)



Source: World Bank

Social indicators. Both Uzbekistan and Kazakhstan have maintained the very similar basic social indicators that inherited from the Soviet Union (see Table 4, below). But Kazakhstan has slipped dramatically in terms of life expectancy at birth, driven mostly by a rapid fall in male life expectancy. This has fallen to 59 years as of 1998, compared to 66 years in Uzbekistan (Figure 6). At the same time, educational participation has also been *comparatively* poorer in Kazakhstan (Table 3).

These overall trends is against the backdrop of large differences between the two countries in their public expenditures on health and education. As noted earlier, Kazakhstan's spending on health and education is about half that in Uzbekistan. Health

Table 3: Changes in School Enrollment Patterns

	Primary enrollment as % of relevant age group		*Secondary enrollment as % of relevant age group*		*Tertiary enrollment as % of relevant age group*	
	1980	*1996*	*1980*	*1996*	*1980*	*1996*
Kazakhstan	85	98	93	87	34	32
Uzbekistan	81	78	106	94	29	36

Source: World Bank

and education outcomes, of course, depend on both public and private expenditures on the provisions of these services, the efficiency of these expenditures, as well as on a host of other factors—such as sanitation, supply of drinking water, and behavioral issues. Differences in these, difficult to document, may have offset the stark differences in public expenditures in health and education. Nonetheless, the deliberate cuts in social spending resorted to in Kazakhstan in response to the fiscal pressures is of serious concern, as it risks under-investment in the human capital stock of the country and thereby undermines the future growth potential.

There are other indicators of human development are not so evenly shared by the two countries. Some of these indicators reflect a higher level of social breakdown in Kazakhstan. For instance, male suicide rate in Kazakhstan at 38 per 100,000 males is more than four times Uzbekistan's 9 per 100,000 and almost double the European Union's average of 20 per 100,000 males.[9] Moreover, evidence suggests stronger gender bias in this, as the male suicide rate in Kazakhstan is more than 4 times that for females compared with a ratio of 3 in Uzbekistan.

In terms of their social safety nets, the two countries have adopted drastically different approaches. In Uzbekistan, policymakers have revitalized and strengthened the traditional *mahalla* system (which provides decentralized benefit-targeting using local communities) as the primary vehicle for providing social assistance to the most

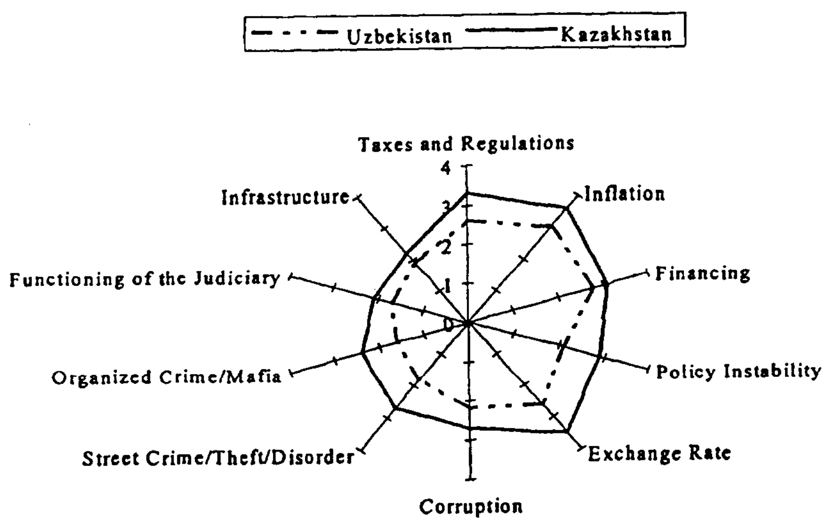
9 UNDP (1999).

been less able to muster internal financial and managerial resources to retool and refocus their economic activities in the face of the initial shock of the breakdown of the Soviet trading system.

Hypothesis 5: Missing The Pieces?

The clear impression of most observers, who have noted that Uzbekistan has lagged behind Kazakhstan in liberalizing prices, is that Uzbekistan's reforms been less comprehensive than Kazakhstan's. But is liberalization a sufficient predictor of reforms? The question is, therefore, whether the formal liberalization of prices has led to greatly improved channels of transmission of accurate price signals. There is some evidence that even as both countries may have generally comparable levels of institutional reforms, their *implementation* may have been less effective in Kazakhstan.

Figure 8: Obstacles to Business



Source: World Bank, Business Environment and Enterprise Performance Survey

Thus, if we accept this reasoning, even as the policy reforms may have created some conditions for an environment conducive to growth in Kazakhstan, the more rapid liberalization has depressed economic growth relative to Uzbekistan (as in the previous hypothesis) while the lack of better institutional incentives has constrained production and income generating activities.

This is confirmed in a recent business environment survey which reveals that managers of firms surveyed perceive the impediments to business to be much more acute in Kazakhstan (see Figure 8).[21] This may be a central factor behind the relative lack of economic rebound in Kazakhstan.[22] Particularly revealing are the perceptions of businessmen in areas such as inflation, exchange rates and policy stability—the less controlled and thus inherently less predictable market-friendly environment in Kazakhstan is seen as posing relatively more obstacles to them than the controlled policy environment in Uzbekistan. As important, of course, is that the more *laissez faire* environment is also accompanied by weaker market institutions such as a strong judiciary and low levels of crime and petty harassment.

Nowhere is the interplay between institutional and policy changes as revealing as in the area of tax reform. A relatively low level of trade taxes but a very corrupt customs service in Kazakhstan has meant that there is an inherent bias by economic agents towards imports and away from domestic production. At the same time, a relatively narrow tax base coupled with a poor administrative and legal environment has meant that a small group of businesses (including start-ups) have been frequently harassed by inspectors. As a result, the business environment in Kazakhstan is one often fraught with unexpected transactions costs, especially for those who are not "insiders." Thus, partial reforms—and less than fully synchronized policy and institutional reforms—may have undermined potentially very successful economic outcomes in Kazakhstan.

A related issue is the progress with respect to industrial enterprise restructuring. Here, despite clear differences in privatization paths followed by the two countries, effective outcomes are not that different. While both countries moved swiftly at the start of the transition to privatize their housing units and small enterprises engaged in retail trade, it has been in the privatization of other small, medium, and large enterprises that the two countries differed. The pace of privatization was much faster in Kazakhstan, at least as suggested by the number of enterprises privatized. This reflected the differing philosophies to transition in the two countries as discussed above. Moreover, private

21 It is possible that the general responses from Uzbek firms were muted in their evaluation of the severity of constraints due to the larger proportion of state-owned firms and the political situation in Uzbekistan.

22 Moreover, given the lack of implicit subsidies from price distortions and relatively few explicit subsidies from the Government, the business environment may actually be worse in Kazakhstan.

participation in strategic sectors of the economy—such as power, telecommunications, banking—is much more advanced in Kazakhstan.

In addition, the initial approach to privatization of medium and large enterprises in Kazakhstan followed the Russian model of voucher privatization (except for oil fields), in an effort to quickly transfer ownership to as diversified a population group as possible. This has diffused ownership, and often allowed the old, less innovative managers to effectively retain control without accountability to the diverse shareholders. In Uzbekistan, the approach was guided by the need to transfer ownership to real owners capable of using the property and ensuring its effective utilization. Towards that end, a scheme of privatization investment funds was developed—which, while providing for widespread private ownership, also attempted to create independent financial investment entities that would improve corporate governance and promote capital market development. However, the Uzbek experience has so far been disappointing and may be explainable by the lack of an enabling macroeconomic environment and the frequent changes to the legal framework (including the partial re-nationalization in 1997).[23]

IV. CONCLUSION (HYPOTHESIS 6): DAMN STATISTICS?

The discussion of the five alternative hypotheses above range from some that have policy implications (hypotheses 3, 4 and 5) and some that do not (1 and 2). Part of the agenda in future work is thus to test the roughly sketched discussions in this note in greater detail, and to work out the relevant policy package if, indeed, there is one. But the efforts to find the answers, at least in the short run, will be bedeviled by the fact that in both these countries, data is generally unreliable, and often unavailable.

In fact, the entire debate about relative performances of the two countries may be clouded by the fact that the statistics are very unreliable, with the state statistical agencies unable to accurately gauge the extent of market activity. The methodology in vogue for estimating the national accounts suffers from various deficiencies. One particular weakness is in adequately accounting for the sizeable informal sector; as a result, relative growth rate stories may be meaningless. Estimates of the informal sector were 25 percent

---

23 See World Bank (1999) for a discussion of the quality of the privatization program in Uzbekistan.

in Kazakhstan in 1998, and 10 percent in Uzbekistan in 1997 but there are no estimates of its trend growth since independence.[24]

So, to turn full circle, is indeed the performance in Uzbekistan better than that in Kazakhstan? By many measures, yes—and by others, not. While Kazakhstan's policy performance is definitely superior, economic performance is not so. Various hypotheses discussed above may each have some merit in explaining this disjunction between policy and performance, but a key reason is the missing pieces in the reform—in particular the greater deficiencies in the competitive environment—which in combination with a diminishing (or weaker state) may have led to such mixed outcomes in Kazakhstan.

Thus, while this paper has laid out some intersecting threads of reasons to explain the dichotomous paths taken by these two Central Asian countries in transition, a fuller understanding of their paths will have to rely on further, focused research on these hypotheses. This would then contribute to a better understanding of the different roads to growth that would lead to better outcomes—not just for the economies of Kazakhstan and Uzbekistan and their people, but for all developing countries.

[24] EBRD (1997). The size of the informal sector is likely to have grown since then, if the rapid growth of the curb market exchange rate premium is any indicator.

EXHIBIT 8

Transition report update

April 2001

[illegible] central and
eastern Europe,
the Baltic states
and the CIS

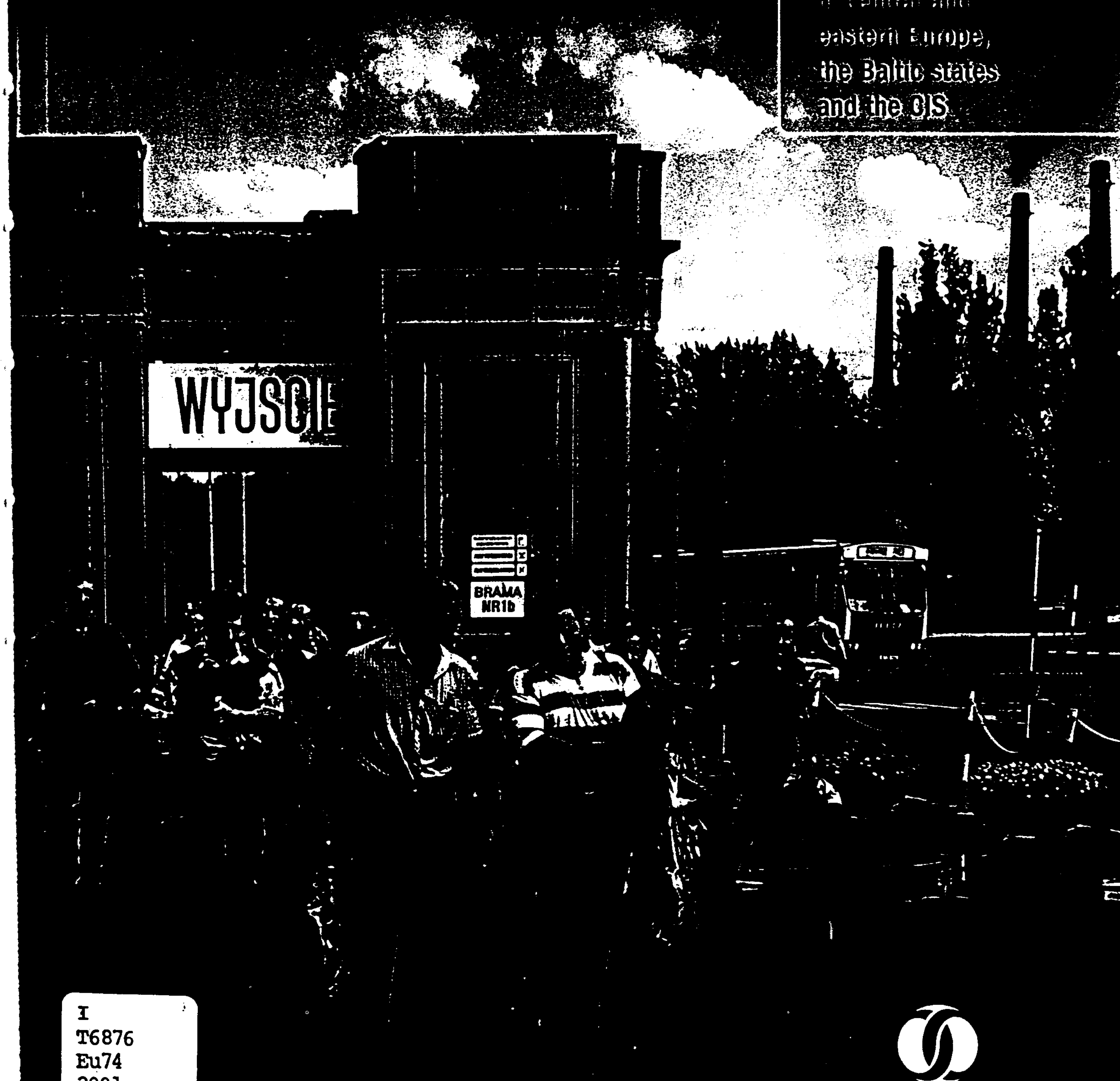


Table 2.1

Foreign direct investment

(net inflows recorded in the balance of payments)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	*Estimate* 2000	*Projection* 2001	Cumulative FDI-inflows 1989–2000	Cumulative FDI-inflows 1989–2000 per capita	FDI-inflows per capita 1999	FDI-inflows per capita 2000	FDI-inflows 1999	FDI-inflows 2000
	(US$ million)													(US$ million)	(US$)	(US$)		(in per cent of GDP)	
Czech Republic	na	na	na	983	563	749	2,526	1,276	1,275	3,591	6,234	4,477	6,000	21,673	2,102	605	434	11.7	9.1
Estonia	na	na	na	80	156	212	199	111	130	574	222	241	300	1,926	1,337	154	168	4.3	4.9
Hungary	187	311	1,459	1,471	2,328	1,097	4,410	1,987	1,653	1,453	1,414	1,650	1,650	19,420	1,935	140	164	2.9	3.5
Latvia	na	na	na	na	50	279	245	379	515	303	331	330	350	2,430	1,027	139	139	5.0	4.6
Lithuania	na	na	na	na	30	31	72	152	328	921	478	355	300	2,367	642	129	96	4.5	3.2
Poland	na	0	117	284	580	542	1,134	2,741	3,041	4,966	6,348	9,299	8,000	29,052	751	164	240	4.1	5.9
Slovak Republic	10	24	82	100	107	236	194	199	84	374	701	1,500	2,000	3,611	669	130	278	3.6	7.4
Slovenia	–14	–2	–41	113	111	131	183	188	340	250	144	133	100	1,534	768	72	67	0.7	0.7
Central eastern Europe and the Baltic states	**183**	**333**	**1,617**	**3,031**	**3,925**	**3,278**	**8,961**	**7,032**	**7,365**	**12,431**	**15,872**	**17,986**	**18,700**	**82,012**	**1,154**	**192**	**198**	**4.6**	**4.9**
Albania				20	45	65	89	97	42	45	51	92	110	546	161	15	27	1.4	2.3
Bulgaria	na	4	56	42	40	105	98	138	507	537	806	975	900	3,307	407	98	120	6.5	8.1
Bosnia and Herzegovina	na	na	na	na	na	0	0	0	0	100	90	117	164	307	71	21	27	2.1	2.8
Croatia	na	na	na	13	102	110	110	482	344	801	1,374	750	700	4,085	907	304	167	6.8	4.0
FR Yugoslavia	na	na	na	na	na	na	0	740	113	112	50	300	1,015	118	13	6	1.1	0.5	na
FYR Macedonia	na	0	0	0	0	24	12	12	18	175	27	169	500	437	219	14	85	0.8	5.0
Romania	na	–18	37	73	87	341	417	415	1,267	2,079	1,070	1,000	1,200	6,768	303	48	45	3.1	2.8
South-eastern Europe	**0**	**–14**	**93**	**148**	**274**	**646**	**726**	**1,143**	**2,917**	**3,850**	**3,530**	**3,153**	**3,874**	**16,465**	**312**	**73**	**68**	**3.1**	**3.6**
Armenia	na	na	na	0	1	8	25	18	52	221	131	150	200	605	159	34	39	7.1	7.8
Azerbaijan	na	na	na	na	0	22	282	661	1,093	1,024	510	500	1,000	4,092	502	64	61	12.8	12.1
Belarus	na	na	na	na	18	11	15	73	198	147	225	90	100	776	78	22	9	1.9	0.8
Georgia	na	na	na	na	0	8	6	54	236	221	60	101	124	687	128	11	19	2.2	3.4
Kazakhstan	na	na	na	100	473	635	964	1,137	1,320	1,136	1,584	1,150	1,810	8,499	571	106	77	9.4	6.3
Kyrgyzstan	na	na	na	na	na	38	96	47	83	109	44	41	65	458	97	9	9	3.6	3.1
Moldova	na	na	na	17	14	18	73	23	71	88	34	100	60	438	102	8	23	2.6	7.1
Russia	na	na	na	na	na	500	1,663	1,665	4,036	1,734	746	2,000	2,500	12,344	85	5	14	0.4	0.8
Tajikistan	na	na	na	9	9	12	10	18	18	25	21	22	19	144	23	3	4	1.9	2.2
Turkmenistan	na	na	na	na	79	103	233	108	108	62	89	100	150	882	165	18	19	4.8	4.5
Ukraine	na	na	na	na	na	151	257	526	581	747	489	594	800	3,345	67	10	12	1.6	1.9
Uzbekistan	na	na	na	9	48	73	–24	90	167	140	121	73	71	697	28	5	3	1.5	1.0
Commonwealth of Independent States	**0**	**0**	**0**	**135**	**642**	**1,579**	**3,600**	**4,419**	**7,963**	**5,654**	**4,054**	**4,921**	**6,899**	**32,967**	**167**	**25**	**24**	**4.1**	**4.3**
Total	**183**	**319**	**1,710**	**3,314**	**4,840**	**5,502**	**13,288**	**12,594**	**18,245**	**21,934**	**23,456**	**26,059**	**29,473**	**131,444**	**505**	**88**	**89**	**4**	**4**

Sources: IMF, central banks and EBRD estimates.

Notes:

For most countries, figures cover only investment in equity capital and in some cases contributions-in-kind.

For those countries (e.g. Estonia and the Slovak Republic) where net investment into equity capital was not easily available, more recent data include reinvested earnings as well as inter-company debt transactions.

Gross inflows of FDI are in some cases considerably higher than net inflows on account of increasing intra-regional investment flows.

2.3 Foreign direct investment

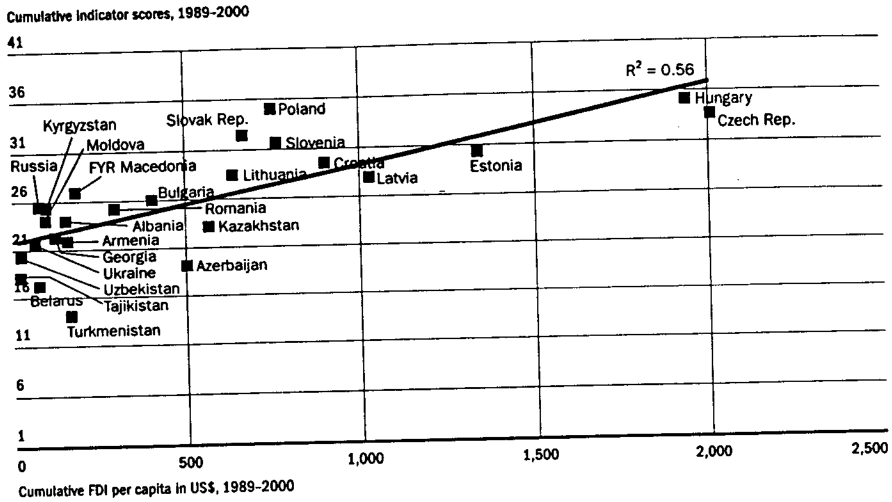
The one part of the region that has sustained significant net private capital inflows is CEB, most of which has been in the form of foreign direct investment (FDI). Long-term capital has been attracted to these advanced transition economies by relatively stable and favourable business environments, close geographical proximity to west European markets and growing domestic markets. There is, in particular, a positive and significant association between progress in transition, as measured by the EBRD's transition indicators and cumulative FDI per capita (see Chart 2.4). Annex 2.1 provides an update on recent progress in transition, across the region. The association among FDI, prospects for EU accession and geographical proximity to west European markets is also strong.[2]

At the same time, cash-based privatisations of enterprises have created significant purchase opportunities in CEB and to a lesser extent SEE for foreign strategic investors. As Chart 2.5 shows, there is a strong association between cumulative FDI per capita and privatisation revenue per capita since the start of transition. Countries that have realised the largest privatisation receipts per capita, such as Croatia, the Czech Republic, Estonia, Hungary, Lithuania, Kazakhstan, Poland, the Slovak Republic and Slovenia, have also tended to attract the most FDI per capita. Few countries have been able to attract sizeable inflows of FDI without cash privatisation of large-scale enterprises. The notable exception is Azerbaijan, which has attracted significant direct investment into its oil and gas sector. The decision of a government to embark on a cash privatisation programme, of course, can be reinforced by the expectation of sizeable receipts. The key to attractive valuations of enterprises undergoing privatisation is to ensure a stable and favourable business environment.

The association between cash privatisation of large-scale enterprises in relatively advanced transition economies and FDI continued in 2000. For example, two CEB countries registered in 2000 their highest inflows of FDI so far, reflecting progress in large-scale privatisation (see Table 2.2).

Chart 2.4

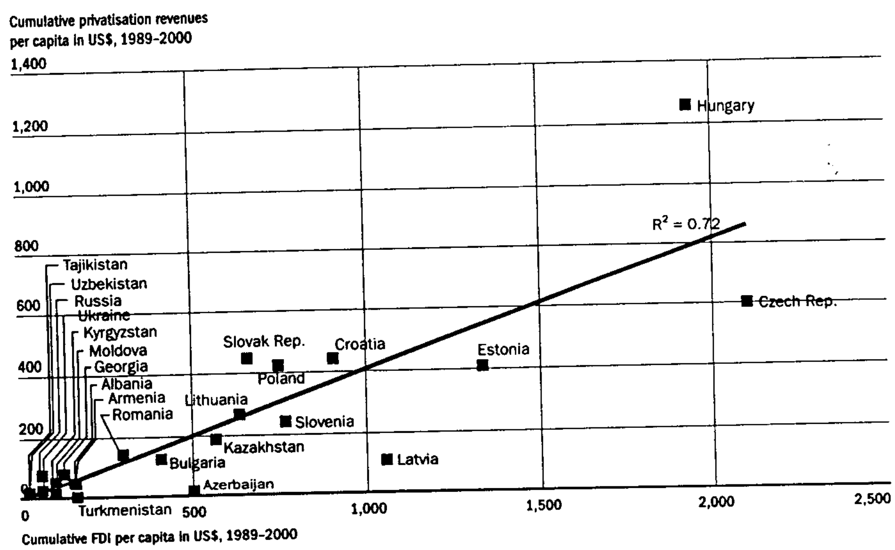
Cumulative FDI per capita and EBRD transition indicator scores



Source: EBRD Database.

Chart 2.5

FDI and privatisation revenues per capita



Source: EBRD Database.

Direct investment in Poland topped US$ 9 billion, boosted by the Government's sale of a 35 per cent stake in the telecommunications operator, Telekomunikacja Polska (TPSA) to France Telecom for US$ 4.3 billion, a 35 per cent stake in Orbis hotels for US$ 0.1 billion and stakes in two electric power generators for US$ 0.1 billion. In the Slovak Republic, FDI reached US$ 1.5 billion as long-delayed large-scale privatisation advanced. The Government's sale of a 51 per cent stake in Slovenske Telecokomunikacie to Deutsche Telecom for US$ 0.9 billion accounted for two-thirds of net FDI in 2000. While direct investment in the Czech Republic edged back in 2000 to US$ 4.5 billion from a previous peak, these inflows were sustained in part by the sale of a 52 per cent stake in Ceska Sporitelna to Erste Bank Sparkasse for US$ 0.5 billion. These six large-scale privatisations accounted for one-third of the total FDI into CEB in 2000.

2 See, for example, Bevan and Estrin (2001) and Economist Intelligence Unit (2001).

EXHIBIT 9

Recent Trends in Foreign Direct Investment*

I. Introduction

Foreign direct investment (FDI) inflows and outflows to and from OECD countries showed continuing rapid growth last year. Inward investment into OECD countries grew by 35% and reached US dollars (USD) 684 billion, while outflows showed an increase of 22% and amounted to USD 768 billion (Table 1). Some OECD countries experienced an unprecedented level of inflows (*e.g.* Japan, Sweden and Germany) and others recorded historically high outflows (*e.g.* Denmark, France and Ireland).

The increase in greenfield investment was significant in 1999, but it was by far exceeded by the growth in mergers and acquisitions (M&A). As in previous years, M&A was the primary vehicle behind the increase in FDI.

Last year, Western Europe was the world's leading region for cross-border M&A. As for individual countries, the United Kingdom overtook the United States as the most active source of M&A investment. In terms of inflows, the United States has remained the most attractive location. The telecom industry is still the most important sector for M&A closely followed by the chemicals sector.

The 1990s brought considerable improvements in the investment climate, influenced in part by the recognition of the benefits of FDI. The change in attitudes, in turn, led to a removal of direct obstacles to FDI and to an increase in the use of FDI incentives. Continued removal of domestic impediments through deregulation and privatisation was also widespread. Deregulation and enhanced competition policy made M&A more viable in the telecommunications, electricity, other public utilities and financial services sectors, while privatisation pro-

* This article was prepared by Maiko Miyake and Magdolna Sass of the Capital Movements, International Investment and Services Division, with contributions from Richard Bolwijn, at KPMG Consulting's strategy group in London. Authors are grateful to Maria Maher, OECD, for helpful suggestions and comments. Ayse Bertrand and Jean-Marc Salou from Financial Statistics Unit were responsible for putting together comparative FDI Statistics and Box 1.

that countries with a stable investment environment or with natural resources attracted more investment than would be expected on the basis of their progress in transition, in part because resource-seeking investments are traditionally less sensitive to economic policies and economic prospects of the home country.

The reliance on privatisation to attract FDI continues to cause annual fluctuations in the inflows into individual countries – and different methods and timing of privatisation may explain some level differences in FDI inflows. By the end of the nineties, only Hungary had shifted to post-privatisation FDI, with annual inflows standing at USD 1.5-2 billion without privatisation projects. Other countries in the first group still rely more on privatisation-related FDI inflows, while countries in the second group may be characterised by pre-privatisation FDI.

The most important countries investing in the region are the United States and Germany. The majority of these investments are made by large MNEs. Other large investors from Western Europe, like France, the United Kingdom and the Netherlands also have a relatively high share in the overall stock of investment. Some smaller companies have also taken part, notably companies located geographically close to the recipient countries (*e.g.* Germany, Austria, Italy and the Scandinavian countries). Asian investors, on the other hand, such as Japan and Korea are relatively underrepresented – especially when considering their otherwise global presence. They do, however, account for a few large projects, typically of the greenfield type.

The sectoral distribution of FDI depends on the privatisation process or on countries' endowments of natural and other production resources. Manufacturing companies are usually the first targets of privatisation, so in the early stages this sector's share is dominant in total FDI. The privatisation of services usually comes second, with the sale of state-owned companies in telecommunications, financial services and in retail trade[8]. Export-oriented investors attracted by the labour force – and, in some cases, by generous incentives – have in some cases undertaken greenfield investment in the vehicles and electronic industries.

Despite the relatively short history of the presence of foreign firms, companies with foreign participation already play a critical role in some economies of the first group. In Hungary, Estonia, Latvia and the Czech Republic, these companies' contribution to value added, foreign trade and GDP is exceedingly significant, even by international comparison. However, in some cases, the beneficial impact of companies with foreign participation on the host economy is arguably limited, on account of underdeveloped linkages with local companies.

Prospects of attracting FDI in the future seem to be relatively bright for the countries in the first group. Their aim to become EU members induces them to

EXHIBIT 10

OECD

in co-operation with

The World Bank and the International Finance Corporation
The United States Agency for International Development

The Eurasian Roundtable
On Corporate Governance
Kiev, Ukraine 19-20 October 2000

CORPORATE GOVERNANCE IN KAZAKNSTAN

Raushan Raiskhanova, MBA,

KIMEP Research Center

Almaty, Kazakhstan

October 2000

net issues of T-bills turned negative. Due to the low inflation rate (5.6% by October 2000), the effective interest rates of T-bills generally decreased. In the structure of trades, the share of 12-month securities fell to 34.5%. However, the demand for the latter exceeded supply by four times.

Secondary market for Treasure Bills

In the second quarter of 2000, the volume of transactions on T-bills in the secondary market increased by 28% compared with the previous quarter and amounted to KZT 99.742 million. In June, the volume of transactions reached the highest level ever. The share of securities denominated in KZT, however, decreased by 14.75 percentage points due mainly to the low volume of transactions with three-month securities (64%). The share of "others" continued to decrease in the second quarter of 2000 and to 10.6%. Transactions with state special treasury obligation, increased three times from May to June. In addition, there was also a significant increase in transactions with six- and nine-month securities in USD by 3 and 2.3 times respectively.

Corporate securities market

A-List

To be included into the Official List of KASE, emitters should meet sertain requirements. The listing requirements to qualify securities for the first segment, or List A are as follows:

- Company should be three years old,
- Have at least 500 shareholders,
- Have financial statements audited for two years in accordance with international standards,
- To be profitable for the last year, and
- Have a minimum capital equivalent of $10 million USD.

A company should also not have any debts of non-paid dividends and have to kept register records with an independent registrar.

List-B

List- B (second segment) requires the company to have audited itsfinancial statements for only one year and have at least 100 voting shareholders (over 500 for investment funds). The company also should issue and place securities in the amount not less than $500,000 USD in KZT and keep a register with an independent registrar.

The companies whose stocks are not included in the Official List but are allowed to trade on the stock exchange floor are called "non-listed emitter" and their stocks are traded on special floors.

As of today, there are 74 stocks of 53 companies available at the KASE floor, including 14 "A"-list companies, 8 "B"- list companies and 31 "non-listed companies".

Capitalization of the corporate stock market by the end of September 2000 accounted for $329.0 million USD. Capitalization of corporate bonds reached $105.3 million USD.

In August 2000 KASE quoted 23 corporate securities deals for $5,114.0 thousand reaching $65.9 million in the current year. On the secondary market 17 deals were quated on 12 instruments which totaled $1,773.5 thousand.

Government

State-owned enterprises

Since independence, Kazakhstan has implemented a number of broadly-based reforms in an effort to move from a planned economy to a market economy, and to attract foreign investment. These reforms include: demonopolization; privatization; debt restructuring; banking reform; lifting profitability controls; price liberalization; establishing a securities and exchange commission; trade liberalization; enacting laws on investment; setting up an adequate Government procurement process; customs reform; and tax reform.

Though Kazakhstan has privatized thousands of enterprises, many large important enterprises remain under state ownership. Though few in number, these large enterprises dominate the economy. The state is still the sole owner of 333 of these enterprises, and they account for about a third of the GDP. Many of these large enterprises have been transferred by the State Property Committee to "trust management" in which existing managers or the regional administrators have control over the enterprises. Regardless, these enterprises are still under state ownership, and trust management should not be a permanent solution.[1]

To examine the change in governance structures after privatization in the Kazakhstani [i]firms own about 37 percent of the shares on average (29 percent by managers and 8 percent by employees). However, the state still has a significant ownership share in Kazakhstani firms, although the state share has significantly decreased from 35 percent in 1995 to 16 percent in 1997.

By the end of 2000, the government plans to have sold all the remaining state-owned packages of the following enterprises: "Manghistaumunaigaz", "Ust'-Kamenogorsk Titanium and Magnesium Complex", "Aktobemunaigaz", "Kazakhmys", "Kazchrome", "Kazzinc", "Kazakhstan Aluminum", "Sokolovsko-Sarbaiskii Mining and Productive Institution." Some part of state-owned packages of Kazakhtelecom and People's Bank will be sold according to individual schemes.

Many Kazakhstani firms complain that while the state has minority shareholdings, the state representative to the Board can block certain decisions.

The most common complaint by both Kazakhstani and foreign businessmen is the difficulty in dealing with officials at all levels of the Government. Based on published surveys of foreign investors and mission interviews with both foreign and domestic investors, the major problems in dealing with the government include:

Corruption

This is a serious problem at all levels ranging from governors (Akims) to local safety and health inspectors.

Coupled with a growing media interest in companies and corporate responsibility, the new laws mean that investors in countries like Kazakhstan have to think long and hard about how to do business in an environment where corruption is rife and demands for

---

[1] http://www.worldbank.kz/text/esw1_engt.html **Economic and Sector Work - Kazakhstan: Joint Private Sector Assessment.**
2

bribes almost are certain. Some respond by staying away, inevitably limiting the investment that Kazakhstan's economy desperately needs. Others find that trying to work in accordance with anti-corruption laws at best slows projects down and raises costs in other ways.

Some Western businessmen are fairly cynical about anti-corruption measures. There are many ways to circumvent the rules, such as creating offshore companies and opaque transfer pricing schemes. In the case of signing bonuses, which are standard payments made by oil companies to governments at the beginning of a contract, there is little control over where those payments go once they have left a Western bank account.

The paradox faced by Western policy-makers is that the more they emphasize corruption as a major obstacle to investment and good relations, the less influence they will have to encourage better governance. The real hope is that a new generation of Kazakh leaders - less influenced by years of deprivation in Soviet times - will have a new approach to the separation of government and business. But meanwhile, companies have to perform an uneasy balancing act: keeping their reputations clean while still making their business profitable.

Licensing and regulation

About 26 different state bodies supervise business activities. The procedures for obtaining licenses are complicated, multiple government agencies are involved, delays are long, and fees are substantial. Several attempts have been made to reduce this regulatory burden (for example, the Presidential Decree of June 14, 1996, "On Small and Medium Enterprise Regulation"), but the problem of complexity still remains.

Tax administration

Though the overall tax level is not considered high, and the number of taxes has been reduced, businessmen must still pay 11 different taxes plus payments to three social funds and several other funds. Taxes are levied at different stages of production and based on different indexes. Tax officials, often unfamiliar with the new tax codes, harass taxpayers and confiscate bank accounts apparently without due process. In spite of a bilateral agreement with Russia, Kazakhstani businessmen must still pay the value-added tax twice on exports to Russia.

Customs procedures

These are still cumbersome, and businessmen complain about long delays. Customs officials are not familiar with regulations that permit VAT payments to be deferred on imported machinery and equipment.

Land ownership

Though the Land Law allows both foreign and domestic investors to buy or lease land, a local land committee allocates land to investors and the procedure is slow and cumbersome.[1]

[2] http://www.worldbank.kz/text/esw1_engt.html **Economic and Sector Work - The Transition to a Market Economy.**

Privatization has resulted in changes in top management in 32 percent of Kazakhstani firms, the highest among the sample countries. However, management turnover was not as high as would be expected in a change in ownership, as is the case in many developed economies. One possible explanation is that many managers of the former state-owned firms were able to purchase significant ownership rights during the privatization process. Nonetheless, it is not clear a priori whether new management per se would result in better governance. It may be that the change in ownership structure would bring about better oversight and incentives that would result in better performance by management, whether new or existing.[2]

Probably the root of many available problems stems from giving primary priority to the foreign companies, which are thought to be a locomotive which will pull the establishment of new market structures. Also it is natural that the foreign businessmen, having far from philanthropic intentions, are more inclined to impose their own rules of game. On the background of the foreign companies supervising manufacturing in separate strategic areas, the national companies (NC), which carry additional loads such as maintenance of social sphere, experience feelings of uncertainty.

Experts are apprehensive about the frequent rotation in the management of the national companies, the absence of priority for domestic NC in comparison with the foreign companies, and the constant intentions of sale of a part of the shares to foreign businessmen. For high-grade functioning of NC, in the experts' opinion, they [NC] should have a number of guarantees such as:

- Safeties, and stability of the companies activities
- Continuity of NC's strategic development lines
- Support for professional growth of the top-managers.

Among national companies the leading positions in efficiency of management are held by NSBK.

According to the opinion of 20% of experts, it is possible to recognize the optimum attitude of the government to the national companies. On all visibility, the support of the national companies will allow the sanction of sore public problems.[3]

Experts report serious political and economic risks because of long unresolved public problems in RK. The priority rate of the foreign companies in a small degree promoted forward progress of Kazakhstan in the category of the advanced countries of the world.

Capital flight from Kazakhstan

Outflow of funds from Kazakhstan is an important issue. According to the opinion of the Head of Balance of Payments and Capital Movement Division of the National Bank of Kazakhstan, this problem of capital flight is characteristic not only of transition economies countries, but also of developed, industrialized ones. While in the countries with developed capital markets exports of capital are related to the diversification of the investment portfolio in order to enhance economic efficiency, the transition countries' export of capital may cause serious problems to

---

[2] http://www.worldbank.kz/text/esw1_engt.html Economic and Sector Work -Kazakhstan: Joint Private Sector Assessment

[3] Newspaper "PANORAMA" , June 26, 2000

macroeconomic stability and sustainable economic growth. Experts could suggest two approaches for the assessment of capital flight:

- The "motivational" approach
- The "normative" approach

The first tries to determine the amount of financial resources transferred abroad, the returns of which have not been repatriated. However, because of the poor quality of statistics, this method cannot be applied in the case of Kazakhstan. For the second approach, the existence of hidden outflows of capital can be assumed when the category of "errors and omissions" shows a debit balance which exceeds the usual statistical error (5% of the overall foreign trade turnover of the country in question).

Kazakhstan is a net debtor. Given the low level of domestic savings, the attraction of foreign resources for investments is important for economic growth. From this point of view, capital flight has to be considered in the context of its impact on Kazakhstan's solvency. To gauge the extent of capital flight, the normative approach based on statistics balance of payments can be used. Imports of capital have exceeded exports since 1996, which indicates the attractiveness of Kazakhstan for foreign capital and, in particular, for foreign direct investments and loans. Assessing the increase in foreign assets held by residents, it is hardly convincing that capital outflows have been motivated by diversification aims. Moreover, the existence of a significant debit balance in the category of "errors and omissions" allows one to assume a steady capital flight. Experts offer immediate measure to prevent or reduce capital outflow from Kazakhstan. These are:

- Improvement of the legal basis
- Improvement of statistical reporting
- Insurance against foreign exchange risks

Generally, efficiency of currency transaction controls and the adoption of measures that would stop the quasi-legal and illegal outflow of foreign currency will contribute to more stability on the market. These will thus promote the efficiency of monetary policy actions and their influence on the real economy. At the same time, in the long run, the key is consistent economic policy that will create and promote favorable conditions for investments in Kazakhstan.

Part 3

Corporate behavior

We recognize the quick formation of professional top-managers. Entrepreneurs who run their own business often hire managers because their knowledge of management is inadequate. According to the survey of the Russian journal *Expert* the main traits of successful managers are spotless reputation, ability to deal with a team, responsibility, and vision of prospects. These characteristics are the same for new Kazakhstan managers.

The main current problem of professional managers' growth lies in the lack of trust from owners. The government, be unable to support and defend ownership, destabilizes the situation. At the same time, Kazakhstani managers measure their success based on their status among state officials.

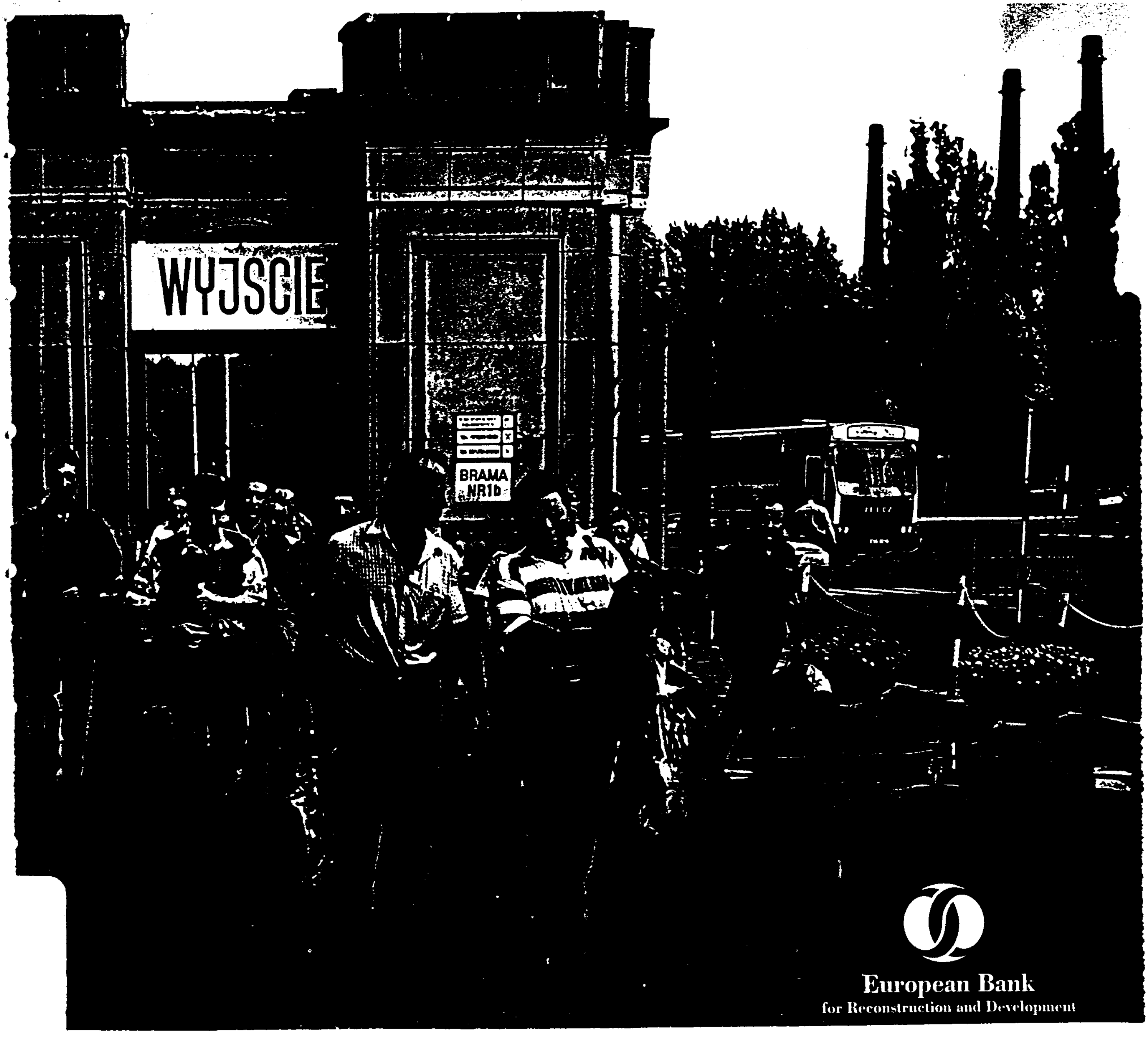
In the West, it is easy to evaluate the performance of top managers. The main indicator is company profit. In Kazakhstan, no one knows about the true revenue of

EXHIBIT 11

Transition report 2000

Employment, skills and transition

Economic transition in central and eastern Europe, the Baltic states and the CIS



European Bank
for Reconstruction and Development

Table 2.1

Progress in transition in central and eastern Europe, the Baltic states and the CIS

Countries	Population (millions, mid-2000)	Private sector share of GDP in %, mid-2000 (EBRD estimate)[1]	Enterprises: Large-scale privatisation	Enterprises: Small-scale privatisation	Enterprises: Governance & enterprise restructuring	Markets and trade: Price liberalisation	Markets and trade: Trade & foreign exchange system	Markets and trade: Competition policy	Financial institutions: Banking reform & interest rate liberalisation	Financial institutions: Securities markets & non-bank financial institutions
Albania	3.3	75	2	4	2	3	4+	2-	2+	2-
Armenia	3.8	60	3	3+	2	3	4	1	2+	2
Azerbaijan	8.1	45	2-	3+	2	3	3+	2	2	2-
Belarus	10.2	20	1	2	1	2-	2-	2	1	2
Bosnia and Herzegovina	4.1	35	2	2+	2-	3	3	1	2+	1
Bulgaria	8.1	70	4-	4-	2+	3	4+	2+	3	2
Croatia	4.5	60	3	4+	3-	3	4+	2+	3+	2+
Czech Republic	10.3	80	4	4+	3+	3	4+	3	3+	3
Estonia	1.4	75	4	4+	3	3	4+	3-	4-	3
FYR Macedonia	2.0	55	3	4	2+	3	4	2	3	2-
Georgia	5.4	60	3+	4	2	3+	4+	2	2+	2-
Hungary	10.0	80	4	4+	3+	3+	4+	3	4	4-
Kazakhstan	14.8	60	3	4	2	3	3+	2	2+	2+
Kyrgyzstan	4.7	60	3	4	2	3	4	2	2+	2
Latvia	2.4	65	3	4+	3-	3	4+	2+	3	2+
Lithuania	3.7	70	3	4+	3-	3	4	3-	3	3
Moldova	4.3	50	3	3+	2	3+	4	2	2+	2
Poland	38.7	70	3+	4+	3	3+	4+	3	3+	4-
Romania	22.3	60	3	4-	2	3	4	2+	3-	2
Russia	145.4	70	3+	4	2	3	2+	2+	2-	2-
Slovak Republic	5.4	75	4	4+	3	3	4+	3	3	2+
Slovenia	2.0	55	3	4+	3-	3+	4+	3-	3+	3-
Tajikistan	6.3	40	2+	3+	2-	3	3+	2-	1	1
Turkmenistan	5.1	25	2-	2	1	2	1	1	1	1
Ukraine	49.5	60	3-	3+	2	3	3	2+	2	2
Uzbekistan	24.9	45	3-	3	2-	2	1	2	2-	2

1 The "private sector shares" of GDP represent rough EBRD estimates, based on available statistics from both official (government) sources and unofficial sources. The underlying concept of private sector value added includes income generated by the activity of private registered companies as well as by private entities engaged in informal activity in those cases where reliable information on informal activity is available. Here the term "private companies" refers to all enterprises in which a majority of the shares are owned by private individuals or entities. The roughness of the EBRD estimates reflects data limitations, particularly with respect to the scale of informal activity. The EBRD estimates may in some cases differ markedly from available data from official sources on the contribution to GDP made by the "private sector" or by the "non-state sector". This is in most cases because the definition of the EBRD concept differs from that of the official estimates. Specifically for the CIS countries, official data in most cases refer to value added in the "non-state sector" – a broad concept which incorporates collective farms as well as companies in which only a minority stake has been privatised.

Classification system for transition indicators[1]

Large-scale privatisation

1 Little private ownership.
2 Comprehensive scheme almost ready for implementation; some sales completed.
3 More than 25 per cent of large-scale enterprise assets in private hands or in the process of being privatised (with the process having reached a stage at which the state has effectively ceded its ownership rights), but possibly with major unresolved issues regarding corporate governance.
4 More than 50 per cent of state-owned enterprise and farm assets in private ownership and significant progress on corporate governance of these enterprises.
4+ Standards and performance typical of advanced industrial economies: more than 75 per cent of enterprise assets in private ownership with effective corporate governance.

Small-scale privatisation

1 Little progress.
2 Substantial share privatised.
3 Nearly comprehensive programme implemented.
4 Complete privatisation of small companies with tradable ownership rights.
4+ Standards and performance typical of advanced industrial economies: no state ownership of small enterprises; effective tradability of land.

Governance and enterprise restructuring

1 Soft budget constraints (lax credit and subsidy policies weakening financial discipline at the enterprise level); few other reforms to promote corporate governance.
2 Moderately tight credit and subsidy policy but weak enforcement of bankruptcy legislation and little action taken to strengthen competition and corporate governance.
3 Significant and sustained actions to harden budget constraints and to promote corporate governance effectively (e.g. through privatisation combined with tight credit and subsidy policies and/or enforcement of bankruptcy legislation).
4 Substantial improvement in corporate governance, for example, an account of an active corporate control market; significant new investment at the enterprise level.
4+ Standards and performance typical of advanced industrial economies: effective corporate control exercised through domestic financial institutions and markets, fostering market-driven restructuring.

Price liberalisation

1 Most prices formally controlled by the government.
2 Price controls for several important product categories; state procurement at non-market prices remains substantial.
3 Substantial progress on price liberalisation: state procurement at non-market prices largely phased out.
4 Comprehensive price liberalisation; utility pricing which reflects economic costs.
4+ Standards and performance typical of advanced industrial economies: comprehensive price liberalisation; efficiency-enhancing regulation of utility pricing.

Trade and foreign exchange system

1 Widespread import and/or export controls or very limited legitimate access to foreign exchange.
2 Some liberalisation of import and/or export controls; almost full current account convertibility in principle but with a foreign exchange regime that is not fully transparent (possibly with multiple exchange rates).
3 Removal of almost all quantitative and administrative import and export restrictions; almost full current account convertibility.
4 Removal of all quantitative and administrative import and export restrictions (apart from agriculture) and all significant export tariffs; insignificant direct involvement in exports and imports by ministries and state-owned trading companies; no major non-uniformity of customs duties for non-agricultural goods and services; full current account convertibility.
4+ Standards and performance norms of advanced industrial economies: removal of most tariff barriers; WTO membership.

Competition policy

1 No competition legislation or institutions.
2 Competition policy legislation and institutions set up; some reduction of entry restrictions or enforcement action on dominant firms.
3 Some enforcement actions to reduce abuse of market power and to promote a competitive environment, including break-ups of dominant conglomerates; substantial reduction of entry restrictions.
4 Significant enforcement actions to reduce abuse of market power and to promote a competitive environment.
4+ Standards and performance typical of advanced industrial economies: effective enforcement of competition policy; unrestricted entry to most markets.

Banking reform and interest rate liberalisation

1 Little progress beyond establishment of a two-tier system.
2 Significant liberalisation of interest rates and credit allocation; limited use of directed credit or interest rate ceilings.
3 Substantial progress in establishment of bank solvency and of a framework for prudential supervision and regulation; full interest rate liberalisation with little preferential access to cheap refinancing; significant lending to private enterprises and significant presence of private banks.
4 Significant movement of banking laws and regulations towards BIS standards; well-functioning banking competition and effective prudential supervision; significant term lending to private enterprises; substantial financial deepening.
4+ Standards and performance norms of advanced industrial economies: full convergence of banking laws and regulations with BIS standards; provision of full set of competitive banking services.

Securities markets and non-bank financial institutions

1 Little progress.
2 Formation of securities exchanges, market-makers and brokers; some trading in government paper and/or securities; rudimentary legal and regulatory framework for the issuance and trading of securities.
3 Substantial issuance of securities by private enterprises; establishment of independent share registries, secure clearance and settlement procedures, and some protection of minority shareholders; emergence of non-bank financial institutions (e.g. investment funds, private insurance and pension funds, leasing companies) and associated regulatory framework.
4 Securities laws and regulations approaching IOSCO standards; substantial market liquidity and capitalisation; well-functioning non-bank financial institutions and effective regulation.
4+ Standards and performance norms of advanced industrial economies: full convergence of securities laws and regulations with IOSCO standards; fully developed non-bank intermediation.

1 The classification system is simplified and builds on the judgement of the EBRD's Office of the Chief Economist. More detailed descriptions of country-specific progress in transition are provided in the transition indicators at the back of this Report. The classification system presented here builds on the *Transition Report* 1994. To refine further the classification system, pluses and minuses have been added to the 1-4 scale since 1997 to indicate countries on the borderline between two categories. The classification 4* which was used up to and including 1996 has been replaced with 4+, though the meaning of the score remains the same.

EXHIBIT 12

The Heritage Foundation THE WALL STREET JOURNAL.

THE INDEX OF ECONOMIC FREEDOM

Your search included the following criteria:

- **Countries:** Kazakhstan
- **Rank:** all
- **Year:** 2001
- **Ordered:** by Select a Policy Factor

Click on the country name to see a detailed analysis.

Overall rank	Country	Year	Overall Score	Trade	Fiscal Burden	Government Intervention	Monetary Policy	Foreign Investment	Banking/ Finance	Wages/ Prices	Property Rights	Re
130	Kazakhstan	2001	3.75	4.0	2.5	2.0	4.0	4.0	4.0	4.0	4.0	

Asia and the Pacific Index of Economic Freedom Scores (30 Economies)

World Rank		2002	2001	2000	1999	1998	1997	1996	1995
1	Hong Kong	**1.35**	1.30	1.30	1.30	1.30	1.40	1.30	1.30
2	Singapore	**1.55**	1.55	1.45	1.40	1.40	1.50	1.50	1.50
3	New Zealand	**1.70**	1.70	1.70	1.70	1.85	1.80	1.80	
9	Australia	**1.85**	1.90	1.90	1.90	1.90	2.15	2.05	2.05
29	Taiwan	**2.35**	2.10	2.00	1.90	1.95	1.95	1.95	2.00
32	Thailand	**2.40**	2.20	2.70	2.35	2.35	2.30	2.35	2.35
35	Japan	**2.45**	2.05	2.15	2.05	2.00	2.05	2.05	1.85
38	Korea, South	**2.50**	2.25	2.40	2.20	2.25	2.25	2.30	2.15
42	Cambodia	**2.60**	2.85	3.00	3.00	3.10	3.50		
55	Sri Lanka	**2.80**	2.70	2.90	2.75	2.75	2.50	2.80	3.00
60	Mongolia	**2.90**	3.00	3.15	3.25	3.15	3.35	3.50	3.33
70	Philippines, The	**2.95**	3.05	2.85	2.85	2.65	2.85	2.95	3.20
79	Malaysia	**3.10**	3.00	2.70	2.60	2.60	2.80	2.70	2.40
101	Pakistan	**3.30**	3.45	3.40	3.45	3.20	3.20	3.15	3.15
105	Indonesia	**3.35**	3.55	3.50	3.10	2.85	2.90	2.85	3.40
108	Fiji	**3.40**	3.40	3.30	3.30	3.20	3.20	3.15	3.40
108	Nepal	**3.40**	3.50	3.60	3.30	3.40	3.65	3.55	
118	Azerbaijan	**3.50**	3.95	4.20	4.20	4.30	4.65	4.75	
121	China	**3.55**	3.55	3.40	3.60	3.50	3.60	3.60	3.60
121	India	**3.55**	3.85	3.80	3.80	3.80	3.80	3.85	3.80
125	Kazakhstan	**3.60**	3.75	3.70	3.95	4.00			
125	Kyrgyz Republic, The	**3.60**	3.65	3.60	3.60	3.80			
131	Bangladesh	**3.70**	3.80	3.75	3.75	3.50	3.50	3.50	3.60
137	Tajikistan	**3.85**	3.95	4.00	4.00	4.25			
137	Vietnam	**3.85**	4.10	4.30	4.30	4.35	4.45	4.45	4.50
140	Burma	**4.10**	4.20	4.10	4.10	4.20	4.30	4.30	
148	Uzbekistan	**4.35**	4.45	4.40	4.40	4.50			
150	Turkmenistan	**4.40**	4.40	4.30	4.30	4.20			
151	Laos	**4.55**	4.65	4.60	4.60	4.50	4.45	4.35	
155	Korea, North	**5.00**	5.00	5.00	5.00	5.00	5.00	5.00	5.00

Index of Economic Freedom Rankings

Rank		2002 Score	2001 Score	2000 Score	1999 Score	1998 Score	1997 Score	1996 Score	1995 Score	Trade	Fiscal Burden of Government	Government Intervention	Monetary Policy	Foreign Investment	Banking and Finance	Wage/ Prices	Property Rights	Regulation	Black Market
101	Mauritania +	3.30	3.70	3.80	3.70	3.75	3.90	3.75		5	4	2	2	2	3	3	4	4	4
101	Pakistan +	3.30	3.45	3.40	3.45	3.20	3.20	3.15	3.15	4	3	3	2	3	3	3	4	4	4
105	Indonesia +	3.35	3.55	3.50	3.10	2.85	2.90	2.85	3.40	3	2.5	2.5	4	3	4	2	4	4	4.5
105	Moldova +	3.35	3.60	3.20	3.30	3.40	3.40	3.40	3.90	3	3.5	2.5	5	3	3	3	3	4	3.5
105	Turkey -	3.35	2.90	2.75	2.80	2.60	2.70	2.90	2.80	2	4.5	2.5	5	3	3	3	3	4	3.5
108	Bulgaria -	3.40	3.30	3.40	3.50	3.65	3.60	3.50	3.50	4	4.5	3	5	2	3	2	3	4	3.5
108	Croatia +	3.40	3.45	3.50	3.60	3.65	3.60	3.60		3	4.5	3	3	3	3	3	4	4	3.5
108	Fiji	3.40	3.40	3.30	3.30	3.20	3.20	3.15	3.40	5	4	3	1	4	3	3	4	3	4
108	Georgia +	3.40	3.55	3.65	3.65	3.65	3.85	3.95		2	2	3	3	3	4	4	4	4	5
108	Ghana -	3.40	3.10	3.10	3.10	3.20	3.40	3.40	3.30	4	3.5	3	5	3	3	2	3	4	3.5
108	Lesotho	3.40	3.40	3.55	3.45	3.50	3.65	3.65		4	4.5	2.5	3	3	3	3	3	4	4
108	Nepal +	3.40	3.50	3.60	3.30	3.40	3.65	3.55		4	2	2	2	4	4	3	4	4	5
108	Rwanda +	3.40	3.60	4.00	4.00	4.20	4.30			3	2	3	2	3	4	3	4	5	5
108	Tanzania +	3.40	3.50	3.40	3.20	3.20	3.25	3.50	3.60	5	3	3	3	2	3	3	4	4	4
117	Ecuador	3.45	3.45	3.10	3.00	2.90	3.00	3.10	3.20	4	2.5	2	5	2	4	3	4	4	4
118	Azerbaijan +	3.50	3.95	4.20	4.20	4.30	4.65	4.75		3	2.5	3	2	4	4	4	4	4	4.5
118	Malawi +	3.50	3.55	3.65	3.65	3.70	3.65	3.60	3.50	4	3.5	3	5	3	3	3	3	4	3.5
118	Niger	3.50	3.50	3.80	3.60	3.80	3.90	4.00		4	3	3	1	4	4	3	4	4	5
121	China	3.55	3.55	3.40	3.60	3.50	3.60	3.60	3.60	5	3	4	1	4	4	3	4	4	3.5
121	Egypt +	3.55	3.60	3.50	3.40	3.35	3.55	3.45	3.70	5	5	3	2	3	4	3	3	4	3.5
121	Ethiopia +	3.55	3.65	3.50	3.50	3.50	3.60	3.55	3.75	5	3.5	3	1	4	4	3	4	4	4
121	India +	3.55	3.85	3.80	3.80	3.80	3.80	3.85	3.80	5	3.5	3	2	3	4	4	3	4	4
125	Chad	3.60	3.60	3.80	3.90	4.00	4.00			5	4	3	1	4	3	3	4	4	5
125	Kazakhstan +	3.60	3.75	3.70	3.95	4.00				4	3	2	4	4	4	3	4	4	4
125	Kyrgyz Rep., The +	3.60	3.65	3.60	3.60	3.80				4	3.5	2.5	5	3	3	3	4	4	4
125	Nigeria -	3.60	3.35	3.30	3.20	3.20	3.30	3.40	3.25	5	3	3	3	3	4	2	4	4	5
125	Togo +	3.60	3.75	3.80	3.90					3	3	3	1	4	5	3	4	5	5
130	Venezuela -	3.65	3.55	3.30	3.30	3.40	3.40	3.50	3.00	4	2.5	3	5	3	3	4	4	4	4
131	Bangladesh +	3.70	3.80	3.75	3.75	3.50	3.50	3.50	3.60	5	2	3	2	3	4	4	4	5	5
131	Romania -	3.70	3.65	3.30	3.30	3.30	3.40	3.65	3.60	3	4	3	5	3	4	3	4	4	4
131	Russia	3.70	3.70	3.70	3.50	3.35	3.55	3.50	3.40	4	3.5	2.5	5	3	4	3	4	4	4
134	Congo, Rep. -	3.75	3.70	3.90	3.95	4.15	4.15	4.20	3.90	5	4.5	3	1	4	4	3	4	4	5
134	Yemen +	3.75	3.85	3.85	4.05	4.10	4.00	3.85	3.80	3	4.5	3	3	4	4	3	4	4	5
136	Haiti +	3.80	3.90	4.00	4.00	4.10	4.10	4.40	4.40	3	2	3	4	4	4	3	5	5	5

Note: Countries whose scores have changed since last year are in Bold. Scores followed by a plus sign (+) have improved from last year. Those followed by a minus sign (-) have worsened.

Government Intervention in the Economy
Score: 3–Stable (moderate level)

Azerbaijan's government consumes about 12 percent of GDP. In 1999, Azerbaijan received 2.68 percent of its revenue from state-owned enterprises and from government ownership of property. According to the Economist Intelligence Unit, "there has been limited structural reform outside of the agricultural sector and the government has never put into effect the sort of extensive large-scale privatisation programme seen, for instance, in Kazakhstan, partly because of resistance from vested interests and partly because of corruption." As a result of these major problems with the privatization program, one point is added to Azerbaijan's government intervention score, as was done last year.

Monetary Policy
Score: 2–Better (low level of inflation)

From 1991 to 2000, Azerbaijan's weighted average annual rate of inflation was 4.63 percent, down from 9.5 percent between 1991 and 1999; as a result, Azerbaijan's monetary policy score is 1 point better this year.

Capital Flows and Foreign Investment
Score: 4–Stable (high barriers)

Officially, the government welcomes foreign investment, but a number of barriers impede such activity. Not the least of these is pervasive corruption. According to the *Financial Times*, "a lack of transparency, an inconsistent legal system and widespread corruption have produced what many foreigners say is 'an extremely hostile place to invest.'" Other barriers include prior investment approval in some sectors, including energy, and a licensing requirement for the employment of foreign nationals. Foreigners may not own land. As the Economist Intelligence Unit observes with regard to a failed investment by R.J. Reynolds, smuggling and unequal treatment also constitute significant barriers to foreign investment.

Banking and Finance
Score: 4–Stable (high level of restrictions)

Azerbaijan's banking system is underdeveloped. Four state-owned banks from the Soviet era dominate the sector. Of 70 private commercial banks, only a dozen have partial foreign ownership, and these are small because of the law that limits foreign ownership to 30 percent of the banking system's capital. According to the European Bank for Reconstruction and Development, "The International Bank of Azerbaijan (IBA) retains its dominant position, controlling the majority of the banking assets, and is due to be privatised, while the UUB is to remain state-owned until 2003. The vast majority of the private Azerbaijani banks are under-capitalised and illiquid.... The privatisation of the IBA and the completion of the restructuring and successful privatisation of the UUB remain major challenges for the banking sector."

Wages and Prices
Score: 4–Better (high level of intervention)

In 1993, the government implemented a reform program under which, among other things, prices were gradually liberalized. The government still controls the prices of utilities and, according to the U.S. Department of State, "the wholesale prices of gasoline" and other oil products. Since the oil industry is a very important part of Azerbaijan's economic output, controls in this area affect the economy significantly. The Department of State also reports that "the government sets the nationwide administrative minimum wage by decree" but that "practically all persons who work earn more than the minimum wage." As a result, Azerbaijan's wages and prices score is 1 point better this year.

Property Rights
Score: 4–Stable (low level of protection)

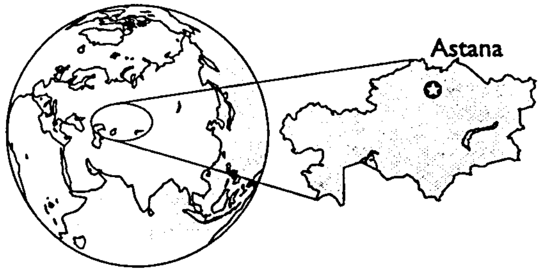
The legal system does not provide sufficient protection for private property. In addition, foreigners are not allowed to own land, unless they purchase it jointly with an Azerbaijani citizen. According to the U.S. Department of State, "in practice, judges do not function independently of the executive branch. The judiciary is [also] widely believed to be corrupt and inefficient." In addition, reports the *Financial Times*, "a lack of transparency and clarity in the legal system leaves too much scope for individual civil servants to interpret the law and regulations as they see fit."

Regulation
Score: 4–Stable (high level)

The procedure for establishing a business can be a tedious and time-consuming one that requires individuals to overcome numerous bureaucratic barriers, weak administration, and an opaque regulatory regime. Corruption also presents a considerable impediment. According to the *Financial Times*, "As important as specific reforms is a change in the country's corruption-ridden culture. Politics and business are unhealthily intertwined, including at the highest level, where for example, the president's 38-year-old son—Ilham Aliyev—is both a leading light in the ruling New Azerbaijan party and a senior Socar executive." The Economist Intelligence Unit adds that, "With the energy sector booming, the government has felt little need to introduce reforms aimed at broadening the base of the economy, making business life more transparent, or indeed, doing anything that would threaten the Aliyev family's stranglehold on the economy."

Black Market
Score: 4.5–Better (very high level of activity)

Transparency International's 2001 score for Azerbaijan is 2.0. Therefore, Azerbaijan's black market score is 4.5 this year.



KAZAKHSTAN

Rank: **125**
Score: **3.60**
Category: *Mostly Unfree*

Trade Policy	4	Government Intervention	2	Foreign Investment	4	Wages and Prices	3	Regulation	4
Fiscal Burden	3	Monetary Policy	4	Banking and Finance	4	Property Rights	4	Black Market	4

The former Soviet republic of Kazakhstan is richly endowed with oil, gas, and mineral resources, including gold, iron ore, coal, copper, chrome, wolfram, and zinc. However, the collapse of the Soviet Union also brought economic difficulty to Kazakhstan, as it was closely integrated into the Soviet system. Between 1990 and 1994, real GDP fell by 44 percent. Since 1991, when the country became independent, it has reoriented trade flows toward markets outside the former USSR. Output stabilized in 1996, but the economy started to falter again in 1997. During the Asian and Russian financial crises of 1997–1998, the government relied on tight monetary, budgetary, and tax policies. As a result, it was able to reduce the hyperinflation of the early 1990s and re-achieve positive growth. However, Kazakhstan relies excessively on the oil and gas sectors for investment, especially since the discovery of the Kashagan oil field in its territorial waters in the northern Caspian Sea. The tax code is plagued by a lack of transparency and consistency. Over 300 of Kazakhstan's largest businesses remain in state hands, particularly in the vital oil and gas industries, and this encourages nepotism and corruption. Investigations by the U.S. and Swiss authorities into the allegedly corrupt practices of the Kazakhstani government have highlighted the failures of its transition to a market economy. Kazakhstan's fiscal burden of government score is 0.5 point worse this year; however, both its wages and prices score and its black market score are 1 point better. As a result, Kazakhstan's overall score is 0.15 point better this year.

TRADE POLICY

Score: 4–Stable (high level of protectionism)

The average tariff rate is 10 percent. Non-tariff barriers take the form of burdensome customs requirements. According to the U.S. Trade Representative, "U.S. companies have consistently identified a requirement that they obtain a 'transaction passport' to clear imported goods through customs as a significant barrier to trade."

FISCAL BURDEN OF GOVERNMENT

Score—Income and Corporate Taxation: 2.5–Stable (moderate tax rates)

Score—Government Expenditures: 3–Worse (moderate level of government expenditure)

***Final Score:* 3–Worse (moderate cost of government)**

Kazakhstan's top income tax rate is 30 percent; the tax on the average income is 5 percent. The top marginal corporate tax rate is 30 percent. In 1999, government expenditures equaled 24.4 percent of GDP, up from 20 percent in 1998; as a result, Kazakhstan's fiscal burden of government score is 0.5 point worse this year.

Scores for Prior Years:

2001: 3.75 **2000:** 3.70 **1999:** 3.95
1998: 4.00 **1997:** n/a **1996:** n/a
1995: n/a

Population: 14,927,000

Land area: 2,717,300 sq. km

Major industries: oil, coal, iron ore, manganese, chromate, lead, zinc, copper, titanium, bauxite, gold, silver, sulfur, iron and steel, nonferrous metal, tractors, electric motors, construction materials

Major agricultural products: grain (mostly spring wheat), cotton, wool, meat

GDP: $20 billion

GDP growth rate: 1.7%

GDP per capita: $1,361

Exports of goods and services: $12 billion

Major export trading partners: EU 22.9%, Russia 19.8%, China 8.5%, UK 3.4%

Imports of goods and services: $9.9 billion

Major import trading partners: Russia 36.7%, EU 25.3%, US 9.5%, Germany 7.8%

Foreign direct investment (net): $835 million

Government Intervention in the Economy

Score: 2–Stable (low level)

The government consumes 10.9 percent of GDP. In 1999, Kazakhstan received 2.89 percent of its total revenues from state-owned enterprises and from government ownership of property.

Monetary Policy

Score: 4–Stable (high level of inflation)

From 1994 to 2000, Kazakhstan's weighted average annual rate of inflation was 15.54 percent.

Capital Flows and Foreign Investment

Score: 4–Stable (high barriers)

Kazakhstan has made some progress in improving its investment climate, but barriers—particularly of the informal variety—remain significant. Foreigners may not own land, and laws are vague and inconsistently applied despite passage of legislation in the 1990s aimed at increasing transparency. It can be difficult to obtain work permits for employees of foreign investors because of continuing quotas on the number allowed. Outside the energy industry, foreign investment remains limited. According to the European Bank for Reconstruction and Development, "until action is taken to improve the investment climate, such as greater transparency in issuing licenses, some investors will continue to be deterred. The government is considering introducing open and competitive tender procedures, which would attract reputable foreign investors."

Banking and Finance

Score: 4–Stable (high level of restrictions)

The government of Kazakhstan is a dominant force in the banking industry; however, according to the Economist Intelligence Unit, "There will be some progress on structural reform, most notably a continued strengthening of the banking sector. Privatisation of the 'blue chip' companies, which had stalled between 1997 and late 2000, will proceed, albeit slowly and with questionable transparency." If privatization of the banking industry proves successful, Kazakhstan's banking and finance score could improve in future editions of the *Index*.

Wages and Prices

Score: 3–Better (moderate level of intervention)

Most price controls were liberalized as part of a program in 1991, when Kazakhstan began a series of broad-based reforms in an effort to move from a planned economy to a market economy. The government still controls prices when considered necessary. Last year, according to the Economist Intelligence Unit, "the government...managed to antagonise Tractebel (Belgium), which runs the Almaty electricity utility, by freezing electricity prices at the level prior to the April devaluation to help control inflation." Based on new evidence with respect to price controls, however, Kazakhstan's wages and prices score is 1 point better this year.

Property Rights

Score: 4–Stable (low level of protection)

Kazakhstan's legal system does not provide sufficient protection for private property. According to the U.S. Department of State, "Government interference and pressure compromised the court system's independence throughout the year.... A Presidential decree signed in September [moved] the responsibility for the courts' administrative support from the Justice Ministry to the Supreme court, though its ultimate impact remained uncertain." In addition, "the problem of corruption is evident at every stage and level of the judicial process." The government also makes it difficult to own land; according to the Economist Intelligence Unit, "Current legislation severely curtails private land ownership."

Regulation

Score: 4–Stable (high level)

Legacies of corruption and inefficient bureaucracy from Soviet days continue to present significant obstacles to businesses. Bribery is still a barrier to fair practices, as is an overall lack of transparency in the regulatory system. Although President Nursultan A. Nazarbayev has established an anti-corruption commission, the *Financial Times* reports that many "doubt the government's sincerity in tackling corruption and point to the fact that Mr Nazarbayev's daughter and two sons-in-law occupy senior government positions." Moreover, "Large companies working in energy or minerals seem to enjoy the government's co-operation—or protection—observers say, but small and medium sized enterprises are left to fend for themselves."

Black Market

Score: 4–Better (high level of activity)

Transparency International's 2001 score for Kazakhstan is 2.7. Therefore, Kazakhstan's black market score is 4 this year.

EXHIBIT 13

Corruption in the CIS

Corruption is higher in the Commonwealth of Independent States (CIS) than in any other region in the world. The EBRD ranks Azerbaijan, Kazakhstan, Russia, Ukraine, and Uzbekistan highest for corruption of public officials, based on estimates by the London-based Economist Intelligence Unit and the DRI/McGraw Hill Global Risk Service. Both organizations are consultants who evaluate investment risks for potential foreign investors. The Economist Intelligence Unit asked country experts to assess the "degree to which public officials are involved in corrupt practices" on a scale of 0 to 4 (0 being very low and 4 being very high). Among the 97 countries surveyed, 18 were former communist states that are making the transition to market economics. The average corruption score of these transition economies was 3.35—"higher than any other region in the world." All five CIS countries included in the survey (Azerbajian, Kazakhstan, Russia, Ukraine, and Uzbekistan) received the highest rating—a score of 4—for corruption among public officials.

EXHIBIT 14

Global Corruption Report 2001
Transparency International

- **Download the Global Corruption Report 2001**
- See recent **press coverage** of the report
- **Frequently asked questions**

The **Global Corruption Report 2001**, launched on 15 October 2001, is the new publication of Transparency International (TI), the leading global anti-corruption NGO. It provides an overview of 'the state of corruption' around the globe.

Global Corruption Repc
Transparency Internatio

The **Global Corruption Report 2001** is available to **order** as a book, and can also be **downloaded** from this website.

This website also provides information **About the GCR** and for the **Press** (including a Press kit), as well as details of how to **Contact** the GCR team at Transparency International and how to send **Feedback** on the report.

Please check this website regularly for updates.

Disclaimer
Every effort has been made to verify the accuracy of the information contained in this report, including allegations. However, Transparency International cannot guarantee the accuracy and completeness of the contents. Nor can Transparency International accept responsibility for the consequences of its use for other purposes or in other contexts. Contributions to the Global Corruption Report 2001 by those authors external to Transparency International do not necessarily reflect the views of Transparency International or its national chapters.

Download

Use the free **Adobe Acrobat Reader** to view these PDF files.

- Contents, Contributors, Acknowledgements, Editor's note, List of acronyms and abbreviations (188 KB)
- Introducing the **Global Corruption Report** (88 KB) - also available in **French, German** and **Spanish**

Regional reports

- East Asia and the Pacific (141 KB)
- Southeast Asia (297 KB)
- South Asia (122 KB)
- Southern Africa (171 KB)

- Southern Africa (171 KB)
- East and East-Central Africa (234 KB)
- West and West-Central Africa (121 KB)
- Middle East and North Africa (119 KB)
- Commonwealth of Independent States (144 KB)
- Central Europe, Southeast Europe and the Baltic States (235 KB)
- West Europe and North America (129 KB)
- Central America, the Caribbean and Mexico (228 KB)
- South America (156 KB)

Global issues

- Corruption in party financing: the case for global standards (145 KB)
- Implementing the Anti-Bribery Convention: an update from the OECD (113 KB)
- Money laundering: private banking becomes less private (109 KB)
- Transparency in the international diamond trade (124 KB)

Data and research

- Data and research (500 KB)

Errata

Page 48, top line:	The reference to Rajiv Gandhi should be to 'Prime Minister Rajiv Gandhi'.
Page 78:	The second mention of 'Westmont' should read 'Independent Power Tanzania Ltd., backed by Mechmar Bhd of The fourth mention of 'Westmont' should read 'Independent Power Tanzania Ltd.'
Page 79:	The first mention of 'Westmont' should read Independent Power Tanzania Ltd.
Page 112, lines 15-16:	Vladimir Brovkin is project director of the United Research Centres on Organised Crime in Russia and Ukraine, Transnational Crime and Corruption Centre, based at American University, not at the UN.

In Moldova, where the economy has declined dramatically over the past ten years, the collapse of communism did not lead to any major break with the old bureaucracy, or their traditional system of privileges.[12] The lack of state power continues to allow political clans to act as substitutes for legal norms. The results have been increases in tax evasion, drug trafficking, illegal import/export operations and contract murders. In late 1999, then prime minister Ion Sturza gave some cause for optimism when his government adopted the State Programme for Fighting Crime, Corruption and Protectionism for 1999–2002.[13] But his government resigned shortly thereafter and voters opted for a return to former communist leaders in the parliamentary elections in February 2001. With the communists back in control, parliament is expected to put the brake on reforms, including those related to fighting corruption.[14]

Azerbaijan is ranked by several international organisations as the most corrupt country in the region.[15] An opinion poll in March conducted by the Turan News Agency showed that 72 per cent of citizens surveyed believe that only a change of power would result in progress in the fight against corruption.[16] Electoral corruption keeps many beneficial changes on the back burner. Amid protests of gross fraud, President Heydar Aliev's ruling New Azerbaijan Party swept the November 2000 parliamentary elections. The authorities cancelled the results in 11 constituencies in response to criticism from election observers. Repeat elections in January 2001 were 'marked with some improvement', according to the OSCE, but monitors still reported serious election violations. Azerbaijan was nonetheless admitted into the Council of Europe shortly afterwards.[17]

In Kazakhstan, oil resources provide an opportunity to finance economic development, but they are also a vast source of potential corruption. The discovery in July 2000 of new oil deposits in the Kazakh part of the Caspian Sea boosted possible petro-investment further.[18] Despite this boon to the economy, a diplomat confirmed in early July 2000 that Swiss authorities had frozen bank accounts in Geneva at the request of the US Justice Department, as part of a corruption investigation into a US businessman suspected of funnelling millions of dollars from US oil companies to top Kazakh officials, including the President. The Foreign and Justice Ministries denied any knowledge of the frozen funds. The investigation culminated in no official charges, but the implications for the major oil investors in the country, Mobil, Phillips Petroleum and Amoco among them, are significant, particularly given US laws on the prevention of bribery of foreign officials by US corporations.[19]

In Georgia, President Eduard Shevardnadze and his ruling elite have been busy promoting wide-ranging anti-corruption efforts. Calling corruption a 'mortal danger' to national security, Shevardnadze signed an anti-corruption decree in based less on fair competition and more on political connections that were often corrupt. Moreover, Volk suggested, there was no radical change of authority in Russia – as occurred for instance in the Czech Republic – which could have facilitated a drive toward greater transparency.[34]

Russia and Ukraine have both stated their intentions to rein in the oligarchs. Since President Putin came to power, former Kremlin insider and media magnate Boris Berezovsky lost favour and is now in self-imposed exile in Europe, having escaped a warrant for his arrest. Berezovsky failed to appear for questioning over his alleged role in the illicit transfer of tens of millions of dollars from airline giant Aeroflot to front companies in Switzerland. But his continued freedom abroad leads many to question whether the Kremlin is merely making empty legal threats for the sake of its public image.[35] In Ukraine, reforms in the energy sector hit the oligarchs hard, and they retaliated by using their influence to bring down the government of liberal prime minister Viktor Yushchenko in April 2001. The move was interpreted as a major setback for reform, including anti-corruption and transparency efforts, as well as for the economy in general.

Electoral corruption

The subtle and not-so-subtle art of electoral corruption in the CIS region obstructs the completion of democratic and market reforms. Dirty tricks, such as the removal of opponents from elections, ballot box stuffing, tampering with ballots, and bribing or threatening voters, are some of the more obvious forms of electoral corruption. Manipulating the media and misinforming the voting public is another form, perhaps more subtle and more dangerous in the long run.

In Central Asia, electoral corruption means that the incumbent, who often thrives on a strong cult of personality, will remain in office as long as he desires. In Turkmenistan and Kazakhstan, this can mean becoming president for life. In Russia and Ukraine, it guarantees that the state remains captured by the ruling elite and its kleptocratic oligarchy.

In Kyrgyzstan, the February to March 2000 parliamentary elections and October 2000 presidential elections were marred by allegations of ballot box stuffing, the exclusion of serious opponents, intimidation of the media and other irregularities. Only those loyal to the regime secured seats in the lower house of parliament. Incumbent President Askar Akayev won nearly 75 per cent of the vote.[36] Most local and international observers declared the vote neither free nor fair, and a setback for the development of democracy in the country.[37] 'The authorities stole the victory from the opposition,' said Melis Eshimkanov, editor-in-chief of the opposition *Asaba* newspaper. 'About 60 per cent of the votes were forged.'[38] John

Freedom of the press in Kazakhstan: deceptive appearances

Pick up a newspaper in Almaty and you read story after story criticising the government. A foreign visitor might be forgiven for assuming that Kazakhstan has a robust press operating in a climate free of censorship. But scratch the surface and there are serious limitations to press freedom.

While even the state-owned media publish articles critical of the government, the President is beyond reproach in a country often dubbed a 'supra-presidential' republic. An article in the Criminal Code ensures that any 'insult of the honour and dignity' of the President is subject to criminal prosecution. The result: self-censorship. Critics compare the code with the notorious paragraph ten of Stalin's article 58.

The harsh reality is that reporting on high-level corruption is extremely constrained. Articles typically name only second or third-hand perpetrators. And since investigative journalism has not made much headway, the occasional reports of high-level corruption found in the pages of openly opposition newspapers are usually translations or reprints from Western, or sometimes Moscow-based, media. Even these are sometimes censored.

Reporting on corruption carries risks. Cases of physical assaults on journalists and arson attacks on media offices are well documented. The recent assault on *Respublika 2000*'s editor after the publication of an article about one of the country's 'oil kings' serves as one example. Threats were also made against journalists at *Vremya* who dared to write about corruption and to the television crews of *KTK-TV*, who produced a controversial report at one of the country's military installations. The Prosecutor's Office has failed to investigate these cases.

On top of the threat of physical intimidation, Kazakh journalists are subject to a tangle of legal and administrative constraints. While the constitution guarantees freedom of speech and prohibits censorship, the current Law on the Media, adopted in 1999, is a pale shadow of the 1991 law created on the wave of Mikhail Gorbachev's *perestroika*.

There is common agreement that the rights and freedoms of the media exist only on paper. The cards are stacked: attempts by journalists to appeal to the law, the constitution or the Universal Declaration of Human Rights are, as a rule, unsuccessful, while the provisions of the Law on Media and other legislation used against journalists, editors, publishers and media owners are implemented with fervour. The arbitrary nature of judicial decisions is an obstacle, thwarting attempts by journalists to write about corruption.

Reporting on high-level corruption is further limited by the concentration of media ownership. Although media ownership is regulated by the Civil Code, anti-monopoly legislation and the Law on Media, the mass media is concentrated in the hands of only a few. While there are many newspapers and television stations in Kazakhstan, most media are bought by pro-presidential forces as soon as their public profile and popularity increase.

One of the more influential media companies is owned by the daughter and son-in-law of the president. Even media of secondary importance are bought up by key economic and political players, including the *Kazkommercebank* financial group, the Eurasian Bank Group, local authorities and – unsurprisingly – the President's other son-in-law.

TI-Kazakhstan

2001 Corruption Perceptions Index

rank			surveys used	deviation	range
1	Finland	9.9	7	0.6	9.2–10.6
2	Denmark	9.5	7	0.7	8.8–10.6
3	New Zealand	9.4	7	0.6	8.6–10.2
4	Iceland	9.2	6	1.1	7.4–10.1
	Singapore	9.2	12	0.5	8.5–9.9
6	Sweden	9.0	8	0.5	8.2–9.7
7	Canada	8.9	8	0.5	8.2–9.7
8	Netherlands	8.8	7	0.3	8.4–9.2
9	Luxembourg	8.7	6	0.5	8.1–9.5
10	Norway	8.6	7	0.8	7.4–9.6
11	Australia	8.5	9	0.9	6.8–9.4
12	Switzerland	8.4	7	0.5	7.4–9.2
13	United Kingdom	8.3	9	0.5	7.4–8.8
14	Hong Kong	7.9	11	0.5	7.2–8.7
15	Austria	7.8	7	0.5	7.2–8.7
16	Israel	7.6	8	0.3	7.3–8.1
	United States	7.6	11	0.7	6.1–9.0
18	Chile	7.5	9	0.6	6.5–8.5
	Ireland	7.5	7	0.3	6.8–7.9
20	Germany	7.4	8	0.8	5.8–8.6
21	Japan	7.1	11	0.9	5.6–8.4
22	Spain	7.0	8	0.7	5.8–8.1
23	France	6.7	8	0.8	5.6–7.8
24	Belgium	6.6	7	0.7	5.7–7.6
25	Portugal	6.3	8	0.8	5.3–7.4
26	Botswana	6.0	3	0.5	5.6–6.6
27	Taiwan	5.9	11	1.0	4.6–7.3
28	Estonia	5.6	5	0.3	5.0–6.0
29	Italy	5.5	9	1.0	4.0–6.9
30	Namibia	5.4	3	1.4	3.8–6.7
31	Hungary	5.3	10	0.8	4.0–6.2
	Trinidad & Tobago	5.3	3	1.5	3.8–6.9
	Tunisia	5.3	3	1.3	3.8–6.5
34	Slovenia	5.2	7	1.0	4.1–7.1
35	Uruguay	5.1	4	0.7	4.4–5.8
36	Malaysia	5.0	11	0.7	3.8–5.9
37	Jordan	4.9	4	0.8	3.8–5.7
38	Lithuania	4.8	5	1.5	3.8–7.5
	South Africa	4.8	10	0.7	3.8–5.6

rank			surveys used	deviation	range
40	Costa Rica	4.5	5	0.7	3.7–5.6
	Mauritius	4.5	5	0.7	3.9–5.6
42	Greece	4.2	8	0.6	3.6–5.6
	South Korea	4.2	11	0.7	3.4–5.6
44	Peru	4.1	6	1.1	2.0–5.3
	Poland	4.1	10	0.9	2.9–5.6
46	Brazil	4.0	9	0.3	3.5–4.5
47	Bulgaria	3.9	6	0.6	3.2–5.0
	Croatia	3.9	3	0.6	3.4–4.6
	Czech Republic	3.9	10	0.9	2.6–5.6
50	Colombia	3.8	9	0.6	3.0–4.5
51	Mexico	3.7	9	0.6	2.5–5.0
	Panama	3.7	3	0.4	3.1–4.0
	Slovak Republic	3.7	7	0.9	2.1–4.9
54	Egypt	3.6	7	1.5	1.2–6.2
	El Salvador	3.6	5	0.9	2.0–4.3
	Turkey	3.6	9	0.8	2.0–4.5
57	Argentina	3.5	9	0.6	2.9–4.4
	China	3.5	10	0.4	2.7–3.9
59	Ghana	3.4	3	0.5	2.9–3.8
	Latvia	3.4	3	1.2	2.0–4.3
61	Malawi	3.2	3	1.0	2.0–3.9
	Thailand	3.2	12	0.9	0.6–4.0
63	Dominican Republic	3.1	3	0.9	2.0–3.9
	Moldova	3.1	3	0.9	2.1–3.8
65	Guatemala	2.9	4	0.9	2.0–4.2
	Philippines	2.9	11	0.9	1.6–4.8
	Senegal	2.9	3	0.8	2.2–3.8
	Zimbabwe	2.9	6	1.1	1.6–4.7
69	Romania	2.8	5	0.5	2.0–3.4
	Venezuela	2.8	9	0.4	2.0–3.6
71	Honduras	2.7	3	1.1	2.0–4.0
	India	2.7	12	0.5	2.1–3.8
	Kazakhstan	2.7	3	1.3	1.8–4.3
	Uzbekistan	2.7	3	1.1	2.0–4.0
75	Vietnam	2.6	7	0.7	1.5–3.8
	Zambia	2.6	3	0.5	2.0–3.0
77	Côte d'Ivoire	2.4	3	1.0	1.5–3.6
	Nicaragua	2.4	3	0.8	1.9–3.4

rank			surveys used	deviation	range
79	Ecuador	2.3	6	0.3	1.8–2.6
	Pakistan	2.3	3	1.7	0.8–4.2
	Russia	2.3	10	1.2	0.3–4.2
82	Tanzania	2.2	3	0.6	1.6–2.9
83	Ukraine	2.1	6	1.1	1.0–4.3
84	Azerbaijan	2.0	3	0.2	1.8–2.2
	Bolivia	2.0	5	0.6	1.5–3.0
	Cameroon	2.0	3	0.8	1.2–2.9
	Kenya	2.0	4	0.7	0.9–2.6
88	Indonesia	1.9	12	0.8	0.2–3.1
	Uganda	1.9	3	0.6	1.3–2.4
90	Nigeria	1.0	4	0.9	–0.1–2.0
91	Bangladesh	0.4	3	2.9	–1.7–3.8

Notes:

1. The '2001 CPI score' ranges between 10 (highly clean) and 0 (highly corrupt).

2. 'Standard deviation' indicates differences in the values given by the sources: the greater the standard deviation, the greater the differences.

3. 'High-low range' provides the highest and lowest values given by the different sources. Since each individual source has its own scaling system, scores are standardised around a common mean. As a result, it is possible in rare cases that the highest value exceeds 10 and that the lowest is lower than 0. Only the aggregate final country scores are restricted to the reported range of 0 to 10.

EXHIBIT 15

Report No. 21862

Republic of Kazakhstan Country Assistance Evaluation

February 20, 2001

Operations Evaluation Department

Document of the World Bank

The World Bank
Washington, D.C. 20433
U.S.A.

Office of the Director-General
Operations Evaluation

February 20, 2001

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Kazakhstan Country Assistance Evaluation

This country assistance evaluation prepared jointly by OED, OEG and MIGA assesses the relevance and efficacy of the World Bank Group assistance to Kazakhstan. A draft of this evaluation was discussed by CODE on January 8, 2001 and a report of that discussion is attached as Annex F. This report is now being re-issued for the purpose of public disclosure.

From December 1991 (when Kazakhstan secured its independence) to March 30, 2000, IBRD approved 21 loans amounting to $1.8 billion. Through adjustment lending (comprising three-fifths of total lending), and some investment lending/technical assistance, the IBRD supported macroeconomic stabilization, structural reform to develop competitive markets, public sector reform and social protection. Other lending was directed mainly toward transport, energy and agriculture. In the same period, IFC approved 17 investments in 13 companies, primarily in the financial sector, providing $390 million in financing while MIGA issued $35.5 million in coverage for four projects.

IBRD adjustment lending was successful in promoting policy reforms. Prices and trade were liberalized, and much of the economy has been privatized. The financial sector has been strengthened. A framework of market-based legislation is in place. The inflation rate declined from over 2,000 percent at the start of the transition to single digits in 1998. Foreign direct investment increased from less than $500 million in 1993 to over a billion dollars in 1998. Despite these achievements, the economic and social deterioration of the country over the past decade has been severe. Per capita GDP has dropped by 40 percent, poverty has grown significantly, major social indicators have worsened and public financial accountability remains poor.

IBRD could not have prevented the rapid decline in GDP since it was caused by the enormous dislocations that characterized the early years of the transition. Indeed, without the Bank Group, the deterioration would probably have been deeper and more prolonged. But in hindsight, the IBRD along with other donors, was overly optimistic in its expectation that the transition from a planned to a market economy in the former Soviet Union countries could be accomplished in a short time and at low social costs. The strategy did not focus forcefully enough on institutions, protection of the poor or gender issues. Critical analytical work needed for poverty reduction was not undertaken until late in the transition. IBRD did emphasize reform of the public sector, but it was ineffective in promoting rural development and it was late in focussing on environmental sustainability and on building domestic capacity for monitoring and evaluation and strengthening public financial accountability. Economic and sector work was constrained by a lack of resources and a majority of investment projects did not fare well due in large part to a lack of country ownership, low implementation capacity on the part of the Government and frequent changes in Government personnel. On balance, the overall outcome of the IBRD program is rated as partially satisfactory; its contribution to institutional development is considered modest and its sustainability uncertain.